



How to Calculate Bonuses into a Regular Rate of Pay for Overtime Purposes

The Fair Labor Standards Act (FLSA) requires that all nonexempt employees be paid at least minimum wage and overtime at time-and-a-half of their "regular rate" for all hours worked over 40 in a workweek.

The regular rate, the rate at which overtime is calculated, can include more than just the employee's normal salary or hourly rate. Generally, the regular rate also encompasses all compensation provided to the employee as part of their employment. Therefore, employers must be sure to properly calculate overtime for a nonexempt employee, particularly when the nonexempt employee receives additional compensation outside of their normal hourly pay rate.

This how-to guide serves as a tool to help calculate the regular rate for overtime purposes when nonexempt employees receive additional bonus compensation.

Step 1: Determine if a Bonus Must Be Included in the Overtime Pay Calculation

As a general rule, any bonus given to employees as a means of motivating job performance, productivity, quality or accuracy must be included in the regular rate of pay.

For example, commissions, incentive pay, gainsharing and perfect attendance awards would be considered bonuses and must be included in the regular rate when calculating overtime. There are some exceptions, though, the three most common being:

- [Holiday/gift bonus](#). This type of bonus is excluded as long as it is not linked to hours worked or production.
- [Discretionary bonus](#). This type of bonus is excluded as long as it is not known or announced in advance to serve as a motivator for performance.
- [Percentage of total earnings bonus](#). This type of bonus uses all overtime paid as part of the "total earnings" calculation. Therefore, this type of bonus would not need to be factored into the employee's regular rate of pay.

Step 2: Define the Time Frame

The next step is to identify what time frame the bonus covered. For example, if the bonus was for work performed during the week, the time frame would be the workweek. If the bonus was for working on a special project last quarter, the time frame would be the quarter.

Step 3: Calculate the Straight-Time Compensation

The straight-time (ST) compensation is calculated by multiplying the total hours worked by the employee's regular rate of pay (RR) and adding the bonus for the specified time frame.

ST Compensation = Total Hours Worked x RR + Bonus

Example: Joe's regular rate of pay is \$10 per hour. One week he worked 45 hours and received a bonus of \$25 for meeting a production goal. Joe's straight-time compensation would be \$475.



$$\$475 = 45 \text{ hours} \times \$10 \text{ per hour} + \$25 \text{ bonus}$$

Step 4: Calculate the New Regular Rate of Pay

Due to the bonus, Joe's regular rate of pay will increase. To obtain the new regular rate of pay, the straight-time compensation is divided by the total number of hours worked.

$$\text{New RR} = \text{ST Compensation} / \text{Total Hours Worked}$$

Example: Joe's straight-time compensation was \$475.00, and he worked 45 hours that week. Joe's new regular rate of pay would be \$10.55.

$$\$10.55 = \$475.00 / 45 \text{ hours}$$

Step 5: Calculate the New Overtime Rate of Pay

Overtime (OT) is calculated at one and one-half times an employee's regular rate of pay. To obtain the new overtime rate of pay due to the bonus, an employer would take the new regular rate of pay and multiply it by 1.5.

$$\text{New OT} = \text{New RR} \times 1.5$$

Example: Joe's new regular rate of pay is \$10.55. Joe's new overtime rate of pay would be \$15.83.

$$\$15.83 = \$10.55 \text{ per hour} \times 1.5$$

Step 6: Calculate Total Earnings

To calculate total earnings, the first step is to obtain the total straight-time earnings by multiplying the new regular rate of pay by the straight-time hours worked during the time frame.

$$\text{ST Earnings} = \text{New RR} \times \text{ST Hours Worked}$$

Example: Joe's new regular rate of pay is \$10.55. Joe worked 45 hours during the week, of which 40 were straight-time hours.

$$\$422.00 = \$10.55 \text{ per hour} \times 40 \text{ hours}$$

Second, the total overtime earnings are obtained by multiplying the new overtime rate of pay by the overtime hours worked during the time frame.

$$\text{Overtime Earnings} = \text{New OT Rate} \times \text{OT Hours Worked}$$

Example: Joe's new overtime rate of pay is \$15.83. Joe worked 45 hours during the week, of which five were overtime hours.

$$\$79.15 = \$15.83 \text{ per hour} \times 5 \text{ hours}$$



The straight-time earnings and overtime earnings are added together to obtain the total earnings.
Total Earnings = ST Earnings + OT Earnings

Example: Joe's straight-time earnings were \$422.00, and his overtime earnings were \$79.15. Joe's total earnings for that week would be \$501.15.

$$\$501.15 = \$422.00 + \$79.15$$

Examples

Scenario 1

Mike makes \$10 per hour and works eight hours per day, Monday through Friday. He is paid on a weekly basis. For purposes of this example, the time frame of consideration for a bonus will be defined as a workweek.

One week, Mike worked 40 hours and also received a perfect attendance award of \$100 for the workweek.

Actions

No action needs to be taken. Mike did not work over 40 hours during the workweek, so no overtime pay is due, and the regular rate does not need to be recalculated.

Scenario 2

John makes \$8 per hour and works eight hours per day, Monday through Friday. He is paid weekly. He received a production bonus of \$9.20 and worked a total of 46 hours during the last workweek.

Actions

1. HR determines the bonus should be included when calculating overtime because it was paid to motivate John to produce.
2. HR defines the time frame as a workweek.
3. Straight-Time Compensation is \$377.20
 - $\$8.00 \text{ per hour} \times 46 \text{ hours worked} + \$9.20 \text{ bonus} = \$377.20$
4. The new regular rate of pay for overtime purposes is calculated to be \$8.20 per hour.
 - $\$377.20 / 46 \text{ hours} = \8.20
5. The new overtime rate of pay is calculated to be \$12.30 per hour.
 - $\$8.20 \text{ per hour} \times 1.5 = \12.30
6. The total earnings for John is \$401.80
 - $\$8.20 \text{ RR} \times 40 \text{ ST hours} = \328.00
 - $\$12.30 \text{ OT} \times 6 \text{ OT hours} = \73.80
 - $\$328.00 \text{ ST earnings} + \$73.80 \text{ OT earnings} = \401.80